

Canfor Investments Ltd. Annual Report 1976

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Prince George Pulp and Paper Limited, Intercontinental Pulp Company Ltd., and B.C. Chemicals Ltd. share this millsite in Prince George. PGPP celebrated its tenth year of operation in 1976.

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Canfor Investments Ltd.



affiliated with Canadian Forest Products Ltd.

Corporate Data

BOARD OF DIRECTORS

John Gerald Prentice,
*Chairman, Canadian Forest Products Ltd.,
Vancouver, British Columbia*

Leopold Lionel Garrick Bentley,
*Vice-Chairman, Canadian Forest
Products Ltd., Vancouver, British Columbia*

Peter John Gerald Bentley,
*President, Canadian Forest Products Ltd.,
Vancouver, British Columbia*

John Ronald Longstaffe,[†]
*Executive Vice-President, Canadian Forest
Products Ltd., Vancouver, British Columbia*

Alexander Gordon Armstrong,
*Secretary-Treasurer, Canadian Forest
Products Ltd., Vancouver, British Columbia*

Ronald Laird Cliff,[†]
*Chairman, Inland Natural Gas Co. Ltd.,
Vancouver, British Columbia*

Joseph Bernard Jarvis,
*Director, Canadian Forest Products Ltd.;
Manager, Pacific Sales, Canfor Pulp
Sales Ltd., Vancouver, British Columbia*

Peter Paul Saunders,
*Chairman and President,
Cornat Industries Limited,
Vancouver, British Columbia*

Charles Henry Wills,[†]
*Partner,
Farris, Vaughan, Wills & Murphy,
Vancouver, B.C.*

[†]Members of the Audit Committee.

OFFICERS

John Gerald Prentice,
Chairman of the Board
Leopold Lionel Garrick Bentley,
Vice-Chairman
Peter John Gerald Bentley, *President*
John Ronald Longstaffe,
Executive Vice-President
Alexander Gordon Armstrong,
Secretary-Treasurer
Geoffrey Hart, *Controller*
Richard Frederick Weinman,
Assistant Secretary

HEAD OFFICE

15th Floor, 505 Burrard Street,
Vancouver, B.C. V7X 1B5

TRANSFER AGENT AND REGISTRAR

For Preference Shares:
Yorkshire Trust Company,
900 West Pender Street,
Vancouver, B.C.
518 - 5th Avenue S.W.,
Calgary, Alberta

For Common Shares:
15th Floor, 505 Burrard Street,
Vancouver, B.C.

STOCK EXCHANGE LISTINGS

Preference Shares Only: Vancouver

BANKERS

Bank of Montreal

SOLICITORS

Lawson, Lundell, Lawson & McIntosh
Vancouver, B.C.

AUDITORS

Price Waterhouse & Co.,
Vancouver, B.C.

DIVIDEND PAYMENTS ON PREFERENCE SHARES

Dividends in the amount of 27.5¢ per
preference share are payable semi-annually
on the last days of April and October in
each year.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held
on May 5, 1977. Shareholders of the
Company owning preference shares in the
capital of the Company do not have the
right to attend or vote at the meeting.

Directors' report to the members

We are pleased to present this second annual report to the members of Canfor Investments Ltd. for the twelve months ended December 31, 1976.

Canfor Investments Ltd. (the "Company") was incorporated as an investment company in July, 1975 and in October, 1975, 500,000 11% cumulative redeemable preference shares were issued having a par value of \$5 each. The Company's initial investments consisted of Cornat Industries Limited ("Cornat"), Credit Foncier Franco-Canadien ("Credit Foncier"), Prince George Pulp and Paper Limited ("Prince George"), and Intercontinental Pulp Company Ltd. ("Intercontinental"). Except in the case of Credit Foncier, the investments in the foregoing companies are accounted for on the equity basis. The Company's investment in Credit Foncier is accounted for on the cost basis whereby only dividends received are recognized as income.

During 1976, the Company acquired an interest in Yorkshire Trust Company ("Yorkshire") through the purchase at various times of an aggregate of 102,283 Yorkshire common shares for a total consideration of \$3,475,000. This holding is equivalent to 46.3% of the common shares on a fully diluted basis. The earnings of Yorkshire are included in the accounts of the Company from the date of initial acquisition of shares and are reflected on the equity basis.

The net earnings of Canfor Investments Ltd. for the twelve month period ended

December 31, 1976 were \$11,616,000, compared to \$3,270,000 for the six month period ended December 31, 1975.

Cornat

Cornat's earnings in 1976 on its revenues of \$132,990,000 were \$5,276,000 of which the Company's equity share was \$2,559,000. Cornat's 1976 revenues represented an increase of 14% over those for 1975, but the 1976 net earnings of Cornat were down by 12% compared to 1975. It would be fair to say that 1976 was a difficult year for Cornat. Although all of Cornat's operations fall under the federal anti-inflation program, it was the indirect effect of the program on the Canadian economy which affected 1976 results as there was negligible growth in the sectors of the economy where Cornat finds its markets. Additionally, various labour disputes, either real or threatened, disrupted the continuity of operations and revenues in a number of Cornat's subsidiaries.

Despite the above negative aspects of 1976, Cornat took several positive steps during the year to stimulate future earnings growth. At mid-year, World Wide Lease Inc. of Seattle, Washington was acquired, marking Cornat's entry into the United States and complementing its financing services in Canada.

On September 1, 1976, Cornat acquired 50.74% of the outstanding common shares of Bralorne Resources Limited ("Bralorne") of Calgary, Alberta. The acquisition resulted in the Canadianization of Bralorne's ownership and this has already facilitated Bralorne's program of broadening its interests in energy-related fields. Bralorne is a major company involved in supplying services and manufactured items to the oil and gas industry and is also engaged in natural gas production and exploration.

On January 10, 1977, Cornat acquired a controlling interest in Versatile Manufacturing Ltd. ("Versatile") of Winnipeg, Manitoba. Versatile has an enviable record of developing innovative farm machinery and equipment. These products are manufactured at Versatile's plants in Manitoba and North Dakota and are marketed principally through a network of some 600 dealers in the United States and Canada.

These three acquisitions have broadened the scope of Cornat's businesses substantially and should result in significantly higher earnings in 1977 and ensuing years.

Cornat paid dividends at the rate of 7½ cents per share for the first and second quarters of 1976. Dividends were increased to 8 cents per share for the third and fourth quarters and are currently being paid at this same rate which is equivalent to an annual rate of 32 cents per share.

Joint Venture Companies

The Joint Venture Companies include Prince George and Intercontinental, whose pulp and paper manufacturing operations are situated in Prince George, B.C., and Takla Forest Products Limited ("Takla"), a company indirectly owned by Prince George and Intercontinental, which produces lumber products, veneer and pulp chips at several locations in north central B.C.

Net earnings of Prince George and Intercontinental for the twelve months ended December 31, 1976 were \$9,512,000 and \$10,479,000 on revenues of \$72,955,000 and \$70,245,000, respectively. The Company's equity share of these earnings was \$4,756,000 in the case of Prince George and \$3,930,000 in the case of Intercontinental. Net earnings of Takla were \$1,278,000 in 1976, compared to a loss in 1975. Takla's results are reflected in the

earnings of Prince George and Intercontinental on the equity basis.

The foregoing financial results compare favourably with past experience and it was gratifying to note that the Joint Venture Companies operated most of their facilities at record production levels during the year. In respect to markets in 1976, pulp demand was relatively strong initially but weakened progressively during the year resulting in the buildup of large inventories throughout the world. This situation continues to plague the pulp market outlook for 1977. The market for sack kraft paper was extremely difficult during 1976 and the 1977 outlook is similar. Lumber prices were at a more satisfactory level during 1976, although they were still far from adequate. The prospects for lumber markets in 1977 hold considerable promise.

An affiliated company manufacturing sodium chlorate and crude tall oil, B.C. Chemicals Ltd., of which Prince George and Intercontinental each owns 25%, experienced a satisfactory year during 1976, and earnings were ahead of expectations owing to substantial external sales of sodium chlorate.

Yorkshire

Yorkshire experienced satisfactory results during 1976. Net earnings from February 1, 1976, the date of initial acquisition of shares by the Company, to December 31, 1976, were \$633,000 on revenues of \$12,164,000. The Company's equity share of 1976 net earnings was \$146,000 reflecting the fact that the Company's interest in Yorkshire increased in stages during the year, as noted previously.

Yorkshire's earnings reflected a reasonable interest rate climate during the last three quarters of 1976, following an unfavourable

period of rapidly rising rates in the first quarter. No new branches were opened in 1976, but Yorkshire's trust company services experienced orderly growth during the year.

The 1977 outlook is for continued growth in trust services and for interest rate spreads to remain satisfactory, although new loan volumes may be down owing to reduced levels of activity in the construction industry.

Credit Foncier

Credit Foncier, in which the Company holds a 5.1% interest, achieved excellent results during 1976. Consolidated assets increased by 19% and consolidated gross revenue increased by 22%, relative to 1975. Consolidated net operating profit was \$9.30 per share in 1976, an increase of 19% from the corresponding 1975 result. Extraordinary items in 1976 amounted to \$1.17 per share, well down from the unusually high 1975 extraordinary figure of \$10.86 per share which reflected a substantial non-recurring gain on the disposal of certain assets. As at December 31, 1976, the net book value of shareholders' equity was \$93.68 per share, an increase of 7% from the end of 1975.

A dividend of \$4.32 per share is being recommended to the shareholders of Credit Foncier at its 1977 Annual General Meeting. This dividend represents an increase of 8% over last year's dividend and is the maximum permitted under the federal anti-inflation program.

Purchase of Company Shares

The terms of the preference share issue require the Company to purchase, if available, in each year commencing January 1, 1976, up to 25,000 preference shares in the open market at prices not exceeding

\$5 per share plus accrued and unpaid dividends and costs of purchase. To date, no purchases have been made by the Company as the preference shares consistently traded during the year at prices above \$5 per share.

Payment of Dividends

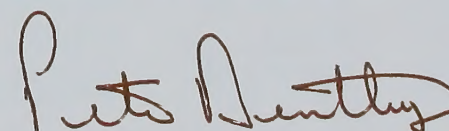
After establishing a Dividend Reserve Fund of \$412,000 to provide for payment of dividends to the holders of preference shares, the Company declared and paid during 1976 dividends totalling \$11.816 per common share to Canadian Forest Products Ltd., which company owns all the issued common shares. In January, 1977, dividends totalling \$4.543 per common share were paid.

It is the present policy of the Company that its earnings available for distribution, after due provision for dividends on the preference shares, will not be used to augment the Company's investment portfolio but will be applied to the payment of dividends on the common shares.

A Note of Appreciation

As the earnings of Canfor Investments Ltd. are based on the performance of its investments, we would like to take this opportunity to express our warm gratitude and appreciation to the personnel of Cornat, Prince George, Intercontinental, Takla, Yorkshire and Credit Foncier for their fine efforts and achievements in 1976.

On behalf of the directors.



P. J. G. Bentley
President

March 24, 1977
Vancouver, B.C.

Canfor Investments Ltd.

STATEMENT OF EARNINGS

For the year ended December 31, 1976

	1976	Six Months To December 31 1975 (Note 1)
Equity in Earnings (See Schedule to Financial Statements)		
Cornat Industries Limited	\$ 2,559,000	\$ 1,570,000
Prince George Pulp and Paper Limited	4,756,000	872,000
Intercontinental Pulp Company Ltd.	3,930,000	816,000
Yorkshire Trust Company (Note 4)	146,000	-
	<u>\$11,391,000</u>	<u>\$ 3,258,000</u>
Other investment income	312,000	35,000
	<u>\$11,703,000</u>	<u>\$ 3,293,000</u>
Deduct: administrative expenses	37,000	12,000
Earnings before income taxes	<u>\$11,666,000</u>	<u>\$ 3,281,000</u>
Income taxes provided	50,000	11,000
Net earnings	<u>\$11,616,000</u>	<u>\$ 3,270,000</u>
Earnings per common share - after reflection of preference share dividend accrual (Note 7)	<u>\$11.19</u>	<u>\$3.22</u>

STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1976

	1976	Six Months To December 31 1975 (Note 1)
Balance, beginning of period	\$ 3,036,000	-
Net earnings	<u>11,616,000</u>	<u>\$ 3,270,000</u>
	<u>\$14,652,000</u>	<u>\$ 3,270,000</u>
Less:		
Dividends paid:		
preference shares	\$ 275,000	-
common shares	11,898,000	-
Write off of incorporation and share issue expenses, net of:		
1975 income tax recovery	-	\$ 234,000
1976 income tax recovery	(50,000)	-
	<u>\$12,123,000</u>	<u>\$ 234,000</u>
Balance, end of period	<u>\$ 2,529,000</u>	<u>\$ 3,036,000</u>

Canfor Investments Ltd.

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1976

	1976	Six Months To December 31 1975 (Note 1)
Source of Working Capital:		
Net earnings	\$11,616,000	\$ 3,270,000
Add: Dividends from equity investments, less share of net earnings	75,000	2,911,000
Income tax provision recovered by offset against incorporation and share issue expenses	50,000	11,000
	<u>\$11,741,000</u>	<u>\$ 6,192,000</u>
Common shares issued:		
for cash	—	1,000
for investments in other companies	470,000	34,944,000
Preference shares issued for cash	—	2,500,000
Proceeds from disposal of investments	278,000	—
	<u>\$12,489,000</u>	<u>\$43,637,000</u>
Application of Working Capital		
Investments acquired:		
for cash	\$ 3,005,000	\$ 276,000
for common shares of the Company	470,000	34,944,000
Incorporation and share issue expenses	—	245,000
Dividends paid: preference shares	275,000	—
common shares	11,898,000	—
	<u>\$15,648,000</u>	<u>\$35,465,000</u>
Resulting in a working capital increase (decrease) of	<u>\$ (3,159,000)</u>	<u>\$ 8,172,000</u>

Summary of Changes in Working Capital

	1976	1975	(Decrease)
Current Assets	\$5,023,000	\$8,188,000	\$(3,165,000)
Current Liabilities	10,000	16,000	(6,000)
Working Capital	<u>\$5,013,000</u>	<u>\$8,172,000</u>	<u>\$(3,159,000)</u>

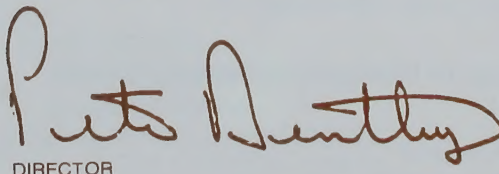
Canfor Investments Ltd.

BALANCE SHEET

as at December 31, 1976

	ASSETS	
	1976	1975
Current Assets		
Cash	\$ 5,000	\$ 15,000
Temporary investments, at cost which approximates market value	5,000	2,170,000
Temporary investments, representing preference share dividend reserve fund, at cost which approximates market value (Note 3)	412,000	—
Dividends and interest receivable	4,601,000	6,003,000
	<u>\$ 5,023,000</u>	<u>\$ 8,188,000</u>
Investments		
At equity (See Schedule to Financial Statements and Notes 2 and 4)		
Cornat Industries Limited	\$19,859,000	\$18,103,000
Prince George Pulp and Paper Limited	4,786,000	5,030,000
Intercontinental Pulp Company Ltd.	2,979,000	4,675,000
Yorkshire Trust Company	3,582,000	—
Credit Foncier Franco-Canadien, at cost (Market value \$3,634,000, 1975 \$3,932,000) (Note 5)	4,225,000	4,225,000
Bonds, at cost	—	276,000
	<u>\$35,431,000</u>	<u>\$32,309,000</u>
	<u>\$40,454,000</u>	<u>\$40,497,000</u>

Approved By The Board:



DIRECTOR



DIRECTOR

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current Liabilities		
Accounts payable and accrued liabilities	<u>\$ 10,000</u>	<u>\$ 16,000</u>
Shareholders' Equity		
Share capital (Note 6)		
Preference shares	\$ 2,500,000	\$ 2,500,000
Common shares	<u>35,415,000</u>	<u>34,945,000</u>
	\$37,915,000	\$37,445,000
Retained earnings	<u>2,529,000</u>	<u>3,036,000</u>
	<u>\$40,444,000</u>	<u>\$40,481,000</u>
	 <u><u>\$40,454,000</u></u>	 <u><u>\$40,497,000</u></u>

Canfor Investments Ltd.

SCHEDULE OF EQUITY INVESTMENTS

December 31, 1976

Percentage of Outstanding Common Shares Held by the Company

Results for the Year:

Revenues

Earnings

Earnings before income taxes

Income tax

Earnings before minority interests

Provision for minority interests (including preference dividends)

Net earnings

Equity share of net earnings (Note 7)

Carrying Value of Investments

Shares at cost to the Company

Equity share of earnings since acquisition

Less: dividends received and receivable since acquisition

Carrying value of investments

Summary of Financial Statements

Financial position as at December 31,

Current assets

Current liabilities

Working capital

Property, plant and equipment, net book value

Investments of guaranteed investment fund

Other assets

Liabilities of guaranteed investment fund

Long-term liabilities

Net assets

Represented by:

Share capital and contributed surplus

Retained earnings (deficit)

Shareholders' equity

Cornat Industries
Limited

1976	1975 (Note 1)
<u>48.5</u>	<u>48.6</u>
<u>\$132,990,000</u>	<u>\$ 62,386,000</u>
\$ 10,848,000	\$ 5,993,000
5,049,000	2,751,000
\$ 5,799,000	\$ 3,242,000
523,000	12,000
\$ 5,276,000	\$ 3,230,000
\$ 2,559,000	\$ 1,570,000
\$ 16,727,000	\$ 16,727,000
4,129,000	1,570,000
\$ 20,856,000	\$ 18,297,000
997,000	194,000
\$ 19,859,000	\$ 18,103,000
\$ 70,835,000	\$ 45,547,000
45,891,000	23,967,000
\$ 24,944,000	\$ 21,580,000
49,211,000	14,902,000
—	—
60,793,000	25,015,000
—	—
(99,670,000)	(29,586,000)
\$ 35,278,000	\$ 31,911,000
\$ 13,438,000	\$ 13,313,000
21,840,000	18,598,000
\$ 35,278,000	\$ 31,911,000

Prince George Pulp
and Paper Limited

1976	1975 (Note 1)
<u>50</u>	<u>50</u>
<u>\$ 72,955,000</u>	<u>\$ 19,340,000</u>
\$ 16,981,000	\$ 3,446,000
7,469,000	1,703,000
\$ 9,512,000	\$ 1,743,000
—	—
\$ 9,512,000	\$ 1,743,000
\$ 4,756,000	\$ 872,000
\$ 9,158,000	\$ 9,158,000
5,628,000	872,000
\$ 14,786,000	\$ 10,030,000
10,000,000	5,000,000
\$ 4,786,000	\$ 5,030,000
\$ 22,701,000	\$ 30,164,000
17,342,000	24,134,000
\$ 5,359,000	\$ 6,030,000
57,302,000	56,020,000
—	—
6,889,000	5,957,000
—	—
(59,980,000)	(57,950,000)
\$ 9,570,000	\$ 10,057,000
\$ 10,000,000	\$ 10,000,000
(430,000)	57,000
\$ 9,570,000	\$ 10,057,000

Intercontinental Pulp
Company Ltd.

1976	1975 (Note 1)
<u>37.5</u>	<u>37.5</u>
<u>\$ 70,245,000</u>	<u>\$ 19,261,000</u>
\$ 19,188,000	\$ 3,611,000
8,709,000	1,434,000
\$ 10,479,000	\$ 2,177,000
—	—
\$ 10,479,000	\$ 2,177,000
\$ 3,930,000	\$ 816,000
\$ 4,834,000	\$ 4,834,000
4,745,000	816,000
\$ 9,579,000	\$ 5,650,000
6,600,000	975,000
\$ 2,979,000	\$ 4,675,000
\$ 29,722,000	\$ 23,516,000
26,869,000	14,048,000
\$ 2,853,000	\$ 9,468,000
53,125,000	53,195,000
—	—
7,010,000	6,529,000
—	—
(55,042,000)	(56,726,000)
\$ 7,946,000	\$ 12,466,000
\$ 8,000,000	\$ 8,000,000
(54,000)	4,466,000
\$ 7,946,000	\$ 12,466,000

Yorkshire Trust
Company

1976 (Unaudited) (Notes 2 and 4)
<u>46.3</u>
<u>\$ 12,164,000</u>
\$ 1,075,000
442,000
\$ 633,000
—
\$ 633,000
\$ 146,000
\$ 3,475,000
146,000
\$ 3,621,000
39,000
\$ 3,582,000
\$ 6,022,000
1,200,000
\$ 4,822,000
780,000
106,226,000
146,000
(106,226,000)
(1,083,000)
\$ 4,665,000
\$ 2,681,000
1,984,000
\$ 4,665,000

Canfor Investments Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 1976

1. Incorporation

The Company was incorporated on July 28, 1975 and is a subsidiary of Canadian Forest Products Ltd., which company owns all the issued common shares.

The comparative amounts for 1975 presented in these financial statements represent the results of activities from that date to December 31, 1975 and, in the case of the schedule of equity investments, the results of the investee companies for the period from July 1, 1975, the deemed date of acquisition of the investments, to December 31, 1975.

Certain minor amendments have been made to 1975 amounts for comparative purposes.

2. Accounting Principles

The following accounting principles have been applied:

- (a) The investments in Cornat Industries Limited, Prince George Pulp and Paper Limited, Intercontinental Pulp Company Ltd. and Yorkshire Trust Company (Note 4) are such that they are appropriately accounted for on the equity basis whereby the Company reflects in its statement of earnings its proportionate share of investee earnings and increases the carrying values of the investments by these amounts. Dividends receivable from these affiliates are accrued as at the dates of record and are deducted from the carrying values of the investments.
- (b) The cost of the investment in Yorkshire Trust Company, acquired in 1976, was \$1,449,000 in excess of underlying

book values of the assets at the times of acquisition. Of this amount \$47,000 is deemed attributable to land and the balance of \$1,402,000 will be amortized over 20 years, commencing 1976.

Equity earnings of Yorkshire Trust Company reflected in the Statement of Earnings and Schedule of Equity Investments are after deduction of amortization.

- (c) The cost of the investment in Cornat Industries Limited was \$2,441,000 in excess of underlying book value of the assets at December 31, 1976. This amount is attributable to land held by certain of that company's subsidiaries and consequently is not being amortized.
- (d) Investments in shares of companies other than those mentioned in (a) above are such that it is not appropriate to account for them on the equity basis and they are therefore accounted for on the cost basis whereby the Company recognizes as income only dividends received.
- (e) Interest income is accounted for on the accrual basis.

3. Preference Share Dividend Reserve Fund

Pursuant to the terms of issue of the preference shares, a dividend reserve fund of \$412,000 was created in January, 1976 to provide for payment of dividends to the holders of the preference shares. During the year, the fund was used for the payment of preference share dividends of \$275,000 and was subsequently replenished by an equal amount.

4. Yorkshire Trust Company

At various times in the year the Company acquired an aggregate of 102,283 common shares of Yorkshire Trust Company for a total consideration of \$3,475,000. The investment represents 46.3% of the common shares of Yorkshire Trust Company on a fully diluted basis.

Of the total acquisition, 16,783 shares were acquired from Canadian Forest Products Ltd. at that company's cost of \$470,000. Consideration was in the form of issuance of 13,425 common shares of the Company (Note 6).

The balance of 85,500 shares, with an aggregate cost to the Company of

\$3,005,000, paid in cash, were acquired from Columbia Western Management Ltd. which was controlled by a former director of the Company.

The Company has the option until 1986 to acquire sufficient additional common shares of Yorkshire Trust Company from Columbia Western Management Ltd. to increase its investment to 50.1%, on a fully diluted basis.

The results of Yorkshire Trust Company reflected in the Schedule of Equity Investments are from February 1, 1976, the date of the initial acquisition of shares by the Company, at which time equity accounting became appropriate.

5. Credit Foncier Franco-Canadien

The market value of the investment in shares of Credit Foncier Franco-Canadien was \$591,000 below cost at December 31, 1976. In the opinion of the directors of the Company this decline in value is not permanent and consequently a reduction in the carrying value of the investment is not appropriate.

6. Share Capital

The share capital of the Company is as follows:

Description of Shares	Authorized	Issued and Outstanding at December 31, 1975		Issued in 1976		Issued and Outstanding at December 31, 1976	
	Shares	Shares	\$000's	Shares	\$000's	Shares	\$000's
11% cumulative redeemable preference shares of the par value of \$5 each	500,000	500,000	2,500			500,000	2,500
Common shares without par value	3,000,000	1,000,000	34,945	13,425 (Note 4)	470	1,013,425	35,415

On or before October 31, 1980 the Company may purchase all or part of the preference shares then outstanding at a price per share not exceeding \$6 and thereafter at the then current redemption price. The Company may redeem the

preference shares from October 31, 1980 to October 31, 1985 at prices which range from \$5.50 to \$5.10 per share and at a price of \$5 per share if redeemed after October 31, 1985. In addition, the Company shall purchase, if available, in

each year commencing January 1, 1976, up to 25,000 preference shares in the open market at prices not exceeding \$5 per share plus accrued and unpaid dividends and costs or purchase. No shares were available for purchase in 1976 at this price.

7. Extraordinary Items of Equity Investments

The 1976 earnings of Prince George Pulp and Paper Limited and Intercontinental Pulp Company Ltd. are after reflecting extraordinary income totalling \$616,000, of which the Company's equity share amounts to \$270,000. This extraordinary income, which relates to application of prior years' losses against current income taxes by an equity investment of those companies, has increased earnings per common share by 26¢.

8. Remuneration of Directors and Senior Officers

Directors' fees aggregating \$3,000 were paid in the year (1975 - \$1,500). No other amounts were paid or credited to the directors or senior officers of the Company in the year.

9. Subsequent Event

In January, 1977, the Company declared and paid dividends to the holder of the common shares totalling \$4.54301 per share.

10. Federal Anti-Inflation Legislation

The Company and its affiliates are subject to, and believe they have complied with, the Anti-Inflation Act. As the Company is a subsidiary of Canadian Forest Products Ltd., which is itself subject to the Act, common share dividends paid to it by the Company are not subject to control.

AUDITORS' REPORT

To the Shareholders of
Canfor Investments Ltd.

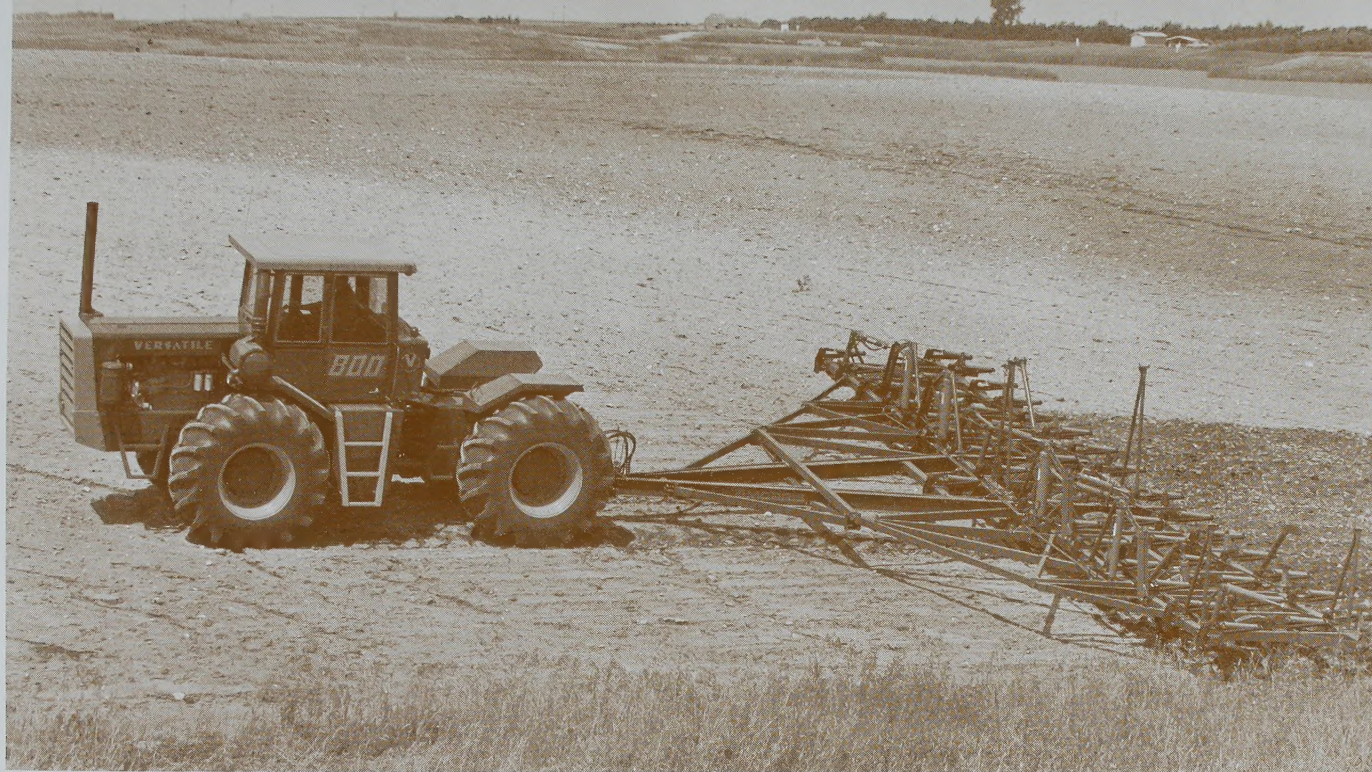
We have examined the balance sheet of Canfor Investments Ltd. as at December 31, 1976 and the statements of earnings, retained earnings and changes in financial position for the year then ended. For Canfor Investments Ltd. and for Yorkshire Trust Company, which was audited by us as at June 30, 1976 and which from February 1, 1976 to December 31, 1976 is accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies accounted for by the equity method we have relied upon the reports of the auditors who have examined their financial statements.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co

Chartered Accountants

Vancouver, B.C.
March 23, 1977



Cornat recently acquired controlling interest in Versatile Manufacturing Ltd., the largest manufacturer of farm machinery in Western Canada.



Crown Caterers is engaged in food catering and housing of oil and gas, construction and mining crews working in remote areas of Western Canada, the Territories and the Arctic. Crown is part of Bralorne Resources Limited, a new subsidiary of Cornat.



The main branch of Yorkshire Trust Company is located in downtown Vancouver, not far from where the original firm opened 89 years ago. There are seven other branches in British Columbia and one in Calgary.

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Canfor
Investments Ltd.

Interim report for
the six months
ended June 30, 1976

Canfor Investments Ltd.



affiliated with Canadian Forest Products Ltd.

Fifteenth Floor / 505 Burrard St. Vancouver B.C. V7X 1B5

President's Report to the Members

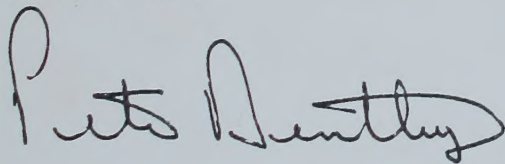
I am pleased to submit the financial statements of Canfor Investments Ltd. ('the Company') for the six months ended June 30th, 1976. The net earnings for this period were \$5,563,000.

In January, the Company acquired 16,783 shares of Yorkshire Trust Company ('Yorkshire') from Canadian Forest Products Ltd. at that company's cost of \$470,000, consideration being in the form of 13,425 common shares of the Company issued from treasury. At the same time, the Company purchased 30,000 shares of Yorkshire from Yorkshire Financial Corporation Limited for \$1,050,000 cash. As a result of these two transactions, the Company owns a 21.2 percent equity interest in Yorkshire on a fully diluted basis.

The Company is presently negotiating an agreement to purchase 55,500 shares of Yorkshire from Columbia Western Management Ltd. (formerly Yorkshire Financial Corporation Limited) for \$1,942,500 cash. Upon completion of this transaction, the Company will have a 46.4 percent equity interest in Yorkshire on a fully diluted basis.

The next semi-annual dividend in the amount of 27.5c per 11% Preference Share of \$5 par value each will be paid October 29th, 1976.

On behalf of the Board



P.J.G. Bentley,
President
August 9th, 1976

Canfor Investments Ltd.

STATEMENT OF EARNINGS

For the Six Months Ended June 30, 1976 (Unaudited)

Equity in after-tax earnings before extraordinary items:	
Cornat Industries Limited	\$ 1,278,000
Joint Venture Companies	3,834,000
Yorkshire Trust Company	<u>52,000</u>
	5,164,000
Other investment income:	
Dividends	177,000
Interest	<u>84,000</u>
	5,425,000
Deduct: administrative expenses	<u>26,000</u>
Earnings before income taxes on net interest income	5,399,000
Income taxes provided on net interest income	<u>30,000</u>
Net earnings before extraordinary items	5,369,000
Extraordinary items:	
Income tax reduction resulting from loss carry forward	30,000
Equity in extraordinary items of Joint Venture Companies resulting from the application of losses of prior years	<u>164,000</u>
Net Earnings	<u>\$ 5,563,000</u>
Earnings per common share, after reflection of preference share dividend accrual:	
Before extraordinary items	<u>\$ 5.16</u>
After extraordinary items	<u>\$ 5.35</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1976 (Unaudited)

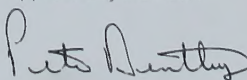
SOURCES OF FUNDS

Net earnings before extraordinary items	\$ 5,369,000
Deduct:	
Share of net earnings of equity investments before extraordinary items, less dividends received	<u>656,000</u>
Funds provided from operations	4,713,000
Reduction of income taxes resulting from loss carry forward	30,000
Common shares issued for investment in Yorkshire Trust Company	<u>470,000</u>
	5,213,000

APPLICATION OF FUNDS

Investment in Yorkshire Trust Company	1,531,000
Dividends paid — preference shares	138,000
— common shares	<u>7,577,000</u>
	9,246,000
Resulting in a working capital decrease of	4,033,000
Working capital at beginning of period	<u>8,172,000</u>
Working capital at end of period	<u>\$ 4,139,000</u>

Approved by the Board



Director



Director